

## **PT Funding Review 2016 – Scope paper**

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## Version control

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# 1 Introduction

This report sets out the problem definition, objectives and scope for the review of the public transport rate funding. About 25% of the operational cost of providing public transport in the Wellington Region is raised through rates. Fare revenue makes up approximately 55-60% (reflecting user benefits) and the remainder is funded from road users by central government through the National Land Transport Programme (NLTP).

Public transport funding is used for:

- Metlink public transport network funding
- rail operations and asset management
- bus and ferry operations and asset management
- Metlink customer services and information.

The need for a review has been triggered by two key factors:

- Concern from council that the current rating approach for transport is difficult to understand and therefore hard to explain/defend
- The public transport transformation programme is making a number of changes, including new contracts, a new network and a change to integrated ticketing and fares.

This paper sets out the problem definition, identifying why we are undertaking a review now. The objectives of the review, the scope of the review key interdependencies and a high level methodology.

This review is an input into the wider review of the Revenue and financing policy. The key interdependencies are:

- The development of the Long Term Plan 2018-2028
- The Public transport transformation programme
- The regional land transport plan review

## 2 Problem Definition

The public transport funding policy methodology used to raise rate funding for public transport is lacking in transparency, is based on a rationale that is poorly aligned with other strategic documents and does not reflect benefits well.

### 2.1 The transport rating model

GWRC currently rates for public transport using a targeted transport rate on a basis of cents per dollar of capital value, with a discount for rural properties. Cost are apportioned to the different city and district council areas in the region using a model that uses census journey to work data to calculate a congestion benefit, and route based data to allocate public transport operating costs to intra district services and inter district services. A proportion of the cost of inter district services (particularly rail) is allocated to the Wellington central business district.

This policy is described in the 2015-2025 LTP as “The transport rate funds GWRC’s net expenditure (after deducting fare and Central Government contributions) for the region’s public transport services, including public transport operations, infrastructure and marketing activities. This rate is apportioned principally on the basis of a surrogate

congestion charge. The transport rate to be recovered from each territorial authority area is set on the basis of capital values.”

The transport rate forms part of the revenue and financing policy. It is a requirement under s102 of the Local Government Act 2002 to have a revenue and financing policy. S103 of the Act provides more detail on the policy sets out the possible sources of funding councils may use. This work is occurring as an input to a wider review of the revenue and financing policy. Further detail on the current revenue and financing policy and the review is in [section 4.2](#) of this paper.

The current transport rating policy has been in place since 2006.

It is now timely to undertake a full review as:

- The current long term plan indicated that the rates funding for public transport be reviewed.
- The development of the 2018-2028 Long Term Plan provides an opportunity to ensure any proposed changes are aligned with the councils wider planning and financial management.
- The transport rate is the most complex aspect of the revenue and financing policy, and accounts for the largest area of council expenditure.
- The public transport transformation project is making significant changes that both impact upon, and may be impacted by any changes to how the rates component of funding is raised.

## **2.2 Issues with the current model**

A number of issues with the current approach to setting the transport targeted rate have been identified.

- The policy rationale for using a targeted transport rate as a surrogate for a congestion charge is weak and not well aligned with current strategic planning documents including the regional land transport plan, and regional public transport plan.
- The detail of the transport rating approach is hard to explain and the rationale for the split between 95% congestion, 5% accessibility is unclear. The 95% of public transport costs that are ascribed to congestion relief and concessionary travel doesn't align well with the percentage of the current or planned network that provides local or targeted services focused on accessibility. There is confusion about how the costs ascribed to congestion relief are then allocated to local council areas and what service costs are considered intra-district, or inter district.
- The current approach does not provide full transparency on cost allocation because some of the information is commercially sensitive under net cost contracts. Although some of the concern around a lack of transparency seems largely to relate to a lack of acceptance of the different treatment of inter- and intra-district trips, although the difference is clearly set out in the policy.
- Because of the funding formula, changes in the allocation of rates between areas occur based on changes in census data (journey to work figures), which increases the variability in the incidence of rating (others factors are changes in the cost of individual services and changing rating valuations).
- The approach where costs are allocated to districts results in the level of rates people pay relating more to the costs of providing a service in an area than to the service level (benefits). This creates boundary issues (properties on different sides of a street can pay very different transport rates) and contrasts with the network

wide approach we take to user benefits - i.e. we don't require individual services or services in each geographical area to meet the farebox recovery target of 55%.

- Concerns have been raised about the whether the amount paid by business ratepayers in the Wellington central business district (approximately 30%) is justified, and if the cost allocation between districts is equitable.
- Changes to government funding for off-peak SuperGold card travel may impact on the balance of funding between fares, NLTF funding and rates funding. The change to bulk funding has effectively changed SuperGold card from a fare substitute to another revenue stream (that is not directly tied to usage).

## **2.3 The public transport transformation project**

There is currently a major transformation underway in the provision of public transport in Wellington, including new contracts, new routes, and a new integrated fares and ticketing (IFT) system. This transition potentially impacts on both the overall balance of funding and the availability of financial information used in the model underlying the transport rate and necessitates a review.

### **2.3.1 New contracting environment**

Once the transition is complete all services will be operated under contract replacing the current split of contracted and commercial services. PTOM contracts are based on the gross cost of operating services, with fare revenue going to the council to offset costs. Previously operators have been paid the difference between operating costs and fare revenue on a net basis. Under this regime, some operator data is unable to be shared with the public as it is commercially sensitive. Under PTOM contracts GWRC will have a much clearer picture of operating costs on a unit basis (although not for individual routes) and fare revenue information will no longer be commercially sensitive.

A new network is being introduced, making significant changes to routes. Routes will form part of operating units. Units are mode specific and contain core, local, and targeted services. The current direct allocation of costs based on individual bus routes will no longer be possible. Currently, costs by route have been allocated to intra, or inter districts. The rail contract (the major component of inter-district services in the rating model) is managed and structured in such a way that any break down of rail costs by line would be arbitrary and therefore contestable. Rail feeder bus services have also been considered inter district but these will now be bundled as part of bus units, e.g. Lower Hutt. Consequentiality if the current funding policy is retained it will be necessary to develop a cost allocation model to break down unit costs into costs for specific routes.

### **2.3.2 Integrated fares and ticketing**

The Integrated Fares and ticketing transition and fares review will change the way fares are charged and patronage and revenue data collected. As part of the wider IFT a comprehensive fare review is currently underway to simplify the available fare products across the network. Public transport fares are considered to reflect direct user benefits to people using public transport. Fare policy considers these benefits along with other factors (incentivising desired behaviour, affordability etc). The fare policy is not currently linked to the funding policy.

Changes to fare products including concessions, the introduction of transfers and the removal of some operator specific fare products may impact on the overall amount of fare revenue, and consequentiality the amount that needs to be raised through rates. The cumulative impact on individuals of fare changes and rates funding changes should be taken into account as far as possible in this review..

A full integrated fares and ticketing system will also be able to provide accurate up-to-date information about boarding/alighting behaviour. If the current funding policy is retained, once ticketing information is available it may no longer make sense to use census journey to work data to inform the congestion component of the rating model.

### **3 Objectives**

The review of public transport funding is an input to the wider review of the revenue and financing policy, and the overall project objective will be set as part of that process.

The working objective for the public transport review is to establish a public transport funding policy that is fair, simple and transparent, with a defensible rationale based on the distribution of benefits. In doing so, the policy should:

- Anticipate new PTOM contracts and allow for future changes in service levels
- Consider the possibility of future governance changes (e.g. creation of a CCO and boundary changes)
- Aim to achieve stability in rating levels for groups of ratepayers (i.e. should not be based on factors that are highly variable).

The review must also meet statutory requirements under the Local Government Act 2002.

### **4 Scope**

#### **4.1 Scope of the PT Funding Review**

The review of public transport funding is an input to the wider review of the Revenue and Financing Policy. The wider review will address the general approach and policy principles, consistency of approach between activities, and:

- links with the Long Term Plan;
- the overall impact of any allocation of liability for revenue on the current and future social, economic, environmental and cultural wellbeing of the community;
- public consultation.

The Scope of the public transport funding review includes:

- The policy rationale for raising rates funding for public transport services
- The economic benefits of public transport and how they are distributed both spatially and to passengers, businesses and community, and other road users
- Consideration of options for rates funding, including whether a targeted rate is the most appropriate method of rating for public transport, and analysis of how costs could be allocated to different areas and classes of ratepayers.

#### **4.2 Fit with existing Revenue and Finance Policy**

Under GWRCs current revenue and financing policy, the following principle would guide the review of PT funding:

*Greater Wellington seeks to achieve a rating system that is fair, transparent, and simple, provides flexibility to respond to future needs, reflects the principle of user pays, and takes account of ability to pay.*

In addition, GWRC's approach to rating is to:

- Provide GWRC with sufficient income to carry out the range of activities it has agreed with the community
- Provide a consistent approach to different categories of ratepayer across the region
- Ensure that all ratepayers contribute as fairly as possible to fund GWRC services.

The revenue and financing policy also includes wider considerations:

- Link to community outcomes: Each group of activities contributes primarily to achieving one or more of these community outcomes (Strong economy, Connected community, Resilient community, Healthy environment, Engaged community)
- Distribution of benefits: The beneficiaries and type of benefit (individual, group, direct, indirect, etc.) of each activity are identified.
- Timeframe of benefits: The period in, or over, which the benefits are expected to occur is identified, including whether benefits from a current activity will accrue to future generations.
- Contributors to need for activity: Any individuals or groups are identified who, through their action, or inaction, contribute to the need to undertake the activity.
- Cost benefit: The costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities.
- Equity, efficiency and inter-generational equity: The review must consider the overall impact of any allocation of liability for revenue on the current and future social, economic, environmental and cultural wellbeing of the community.

The revenue and financing policy is currently being reviewed as part of the development of the 2018-2028 Long Term Plan. This review is being led by Shane Mercer (Team Leader, Accounting). A project outline is being developed for this work. The revenue and financing policy review will be signalled to council before Christmas, with the aim of getting a paper to them in March or April next year. This will be occurring in parallel with a high level review of the Financial Strategy, and a review of the Infrastructure policy.

#### **4.3 Regional land transport plan**

The Regional land transport plan (RLTP) sets out the 30 year vision for transport in Wellington.

*'To deliver a safe, effective and efficient land transport network that supports the region's economic prosperity in a way that is environmentally and socially sustainable*

*Public transport will provide an attractive option for an increasing number of people, particularly at peak times along key commuter corridors. Public transport trip times, reliability, cost and comfort will compete favourably with private cars for a majority of commuter trips. The public transport system will effectively connect people with key destinations. All public transport services will have a high level of accessibility, including physical access, access to information and simple streamlined ticketing*

*A high quality (frequent, comfortable, safe, and easy to use) and reliable peak period public transport network will provide an efficient method for moving large numbers of people at peak times (with associated de-congestion benefits) along corridors where the*



*transport network is in high demand and capacity is an issue. Continuing to improve off-peak accessibility will ensure that the public transport network provides a good base level of service for community accessibility purposes.'*

The RLTP is the strategic document that provides the rationale for why Greater Wellington funds and provides public transport. The current approach to rates funding for public transport was developed before the RLTP, and while congestion and accessibility are key objectives in both, there is not clear linkage between the RLTP and the targeted rate. As part of clarifying the policy rationale for the targeted rate clearer alignment with the RLTP will be sought.

The RLTP will shortly be undergoing a mid-term review, but this will focus primarily on activities for inclusion in the National Land Transport Programme and is unlikely to result in changes to the vision, objectives and targets.

#### **4.4 Regional public transport plan**

The Wellington Regional Public Transport Plan 2014 (PT Plan) identifies a dual strategic role of the PT network:

- To provide peak period congestion relief and access to employment opportunities (core routes and some targeted services).
- To provide community access to services and facilities, particularly for people who do not have access to a private motor vehicle (local routes and some targeted services).

The current service mix does not link well with the approach of 95% of benefits being classed as relating to congestion. The review of the policy rationale will be informed by the PT Plan.

## **5 Methodology**

The proposed methodology for the PT funding review is set out below, as thinking develops about the approach for the wider review of the financial strategy and revenue and financing policy this may change.

The main tasks are:

- Clarify policy rationale for PT funding
- Undertake an economic analysis of the economic benefits, and distribution of benefits
- Council and stakeholder engagement on rationale and benefits
- Develop long list options
- Workshop long list options against policy criteria
- Develop short list
- Modelling and analysis of short list options
- Council and stakeholder engagement on short list options

Tasks that form part of the wider review of the Revenue and Financing Policy will include:

- Proposal for consultation developed
- Public consultation
- Submissions analysis
- Development and adoption of final policy

An indicative timeline and breakdown of tasks is attached as [Appendix one: Indicative timeline and task breakdown](#)

## 6 Resources

### 6.1 Budget

|                    |          |   |
|--------------------|----------|---|
| WBS<br>562/0110/06 | \$50,000 | Current budget for 2016/17  |
| Legal              | \$20,000 |   |
| Other advice       | \$30,000 | possible uses: <ul style="list-style-type: none"> <li>• economic analysis</li> <li>• communications and marketing</li> <li>• peer review</li> </ul> |

### 6.2 People

Helen Chapman – Policy lead

Dave Grimmond - Economist

Shane Mercer – leading the Revenue and Financing policy

Harriet Shelton/Natasha Hayes – link to RLTP

Charlotte Vaughan- Finance

Shirley Long - rating model and financial modelling

Tass Larsen – peer review/policy

Andrew Macbeth & David Lewry– link with fares/ticketing work

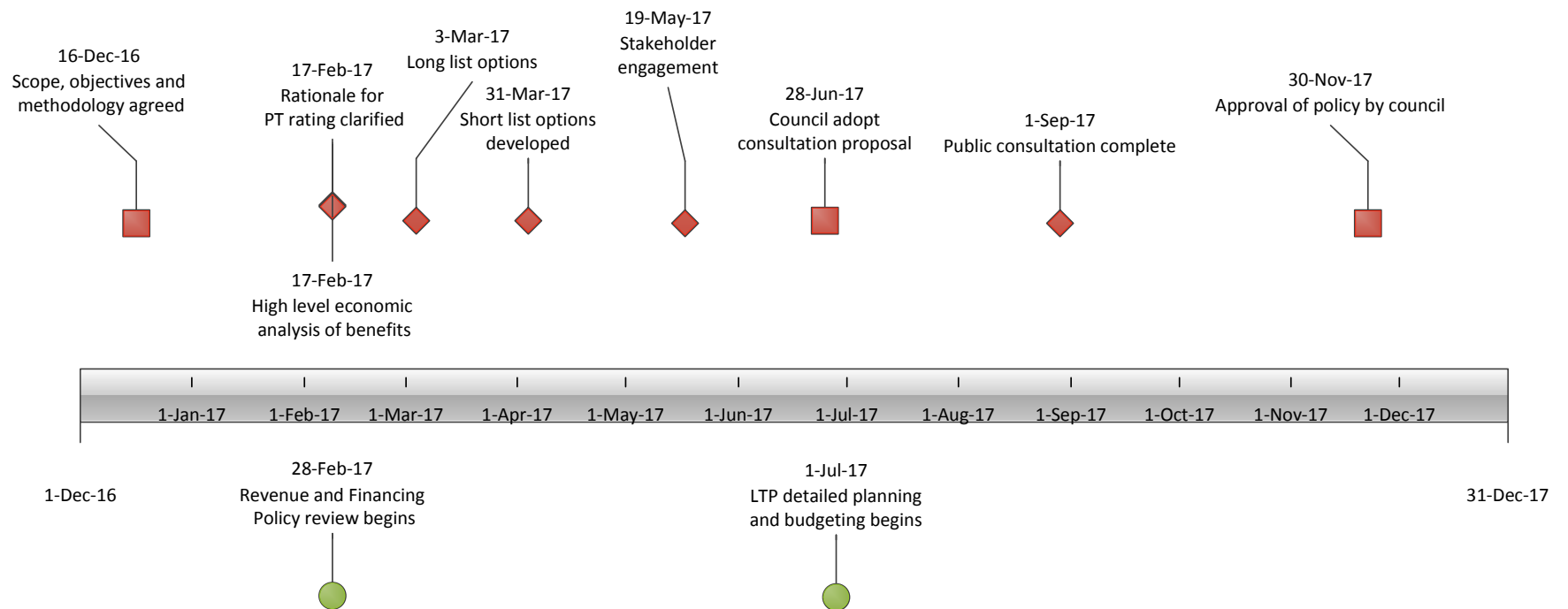
Rating expert – may be commissioned as part of revenue and financing policy

Sam Gain/Linda Going – to commission legal advice if required

Transport modelling team– Seek input from Nick Sargent on who is best placed to assist

Communication and Marketing team

## Appendix one: Indicative timeline and task breakdown



| <b>Task</b>   | <b>Comments</b>   | <b>Deliverable</b> | <b>Milestone date</b>  | <b>Resources</b>  |
|---|---|--------------------|------------------------|---|
| Agree Scope, objectives and methodology   |   | Paper              | 16 December 2016       | PT Planning, GM PT & ELT Wayne to confirm   |
| Clarify policy rationale for PT funding   | Use information in RLTP and PT plan to clarify policy rationale and refine as necessary<br><br>Develop policy criteria for assessing rating approach              | Paper              | 17 February 2017       | PT Planning   |
| High level economic analysis of benefits  | Undertake initial analysis of key benefits of PT, and distribution of benefits spatially and to different groups (e.g. PT Users, businesses, the wider community) | Paper              | 17 February 2017       | Strategic Planning,   |
| Long list options identified  | Long list of possible approaches to rating for PT developed   | Paper              | 3 March 2017           | PT Planning, Finance, strategic planning, legal (to confirm LG (rating) Act requirements) |
| Engage with council and stakeholders about policy rationale and economic benefits |   | Workshop           | March/April            | PT Planning   |
| Workshop long list options against policy criteria                                |   | Workshop           | Complete 17 March 2017 | PT Planning, Wider PT group, Finance, Strategic Planning, Regional Transport Planning     |
| Develop short list of rating approaches   |   | Paper              | 17 March 2017          | PT Planning   |

|  |  |  |                      |   |
|--|--|--|----------------------|---|
| Undertake modelling and analysis of short list options |  | Model outputs, summary paper. Possible development of economic model | Complete 19 May 2017 | Regional Transport Planning (Transport model), Finance. Possible peer review. |
| Engage with council and stakeholders on short list     |  | Workshop   | 19 May 2017          | PT Planning, Finance,   |
| Develop proposal for public consultation               | Through the wider R & F policy review. | Paper & council resolution   | TBC                  | Finance, PT Planning, Communications & marketing                              |
| Public consultation                                    | Through the wider R & F policy review  | Consultation document  | TBC                  | Finance, PT Planning, Communications & marketing                              |
| Submissions analysis                                   |  | Paper  | TBC                  | PT Planning   |
| Finalisation of policy                                 |  | Paper  | TBC                  | PT Planning, Finance, Strategic Planning, Legal                               |
| Adoption of rating approach by council                 | Through the wider R & F policy review  | Council resolution   | TBC                  | PT Planning, Finance, Democratic services                                     |
| Implementation   |  |  |                      | Finance   |